

# INVESTMENT SOLUTIONS

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Winter 2017

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# Welcome

In the winter edition of Investment Solutions magazine, we analyse what the proposed Budget changes mean for you.

BT Financial Group Investment Specialist, Riccardo Briganti, provides us with an investment update on local and international markets.

Celebrity renovator, Cherie Barber shares some handy tips on how to 'flip property' for a profit.

Finally, Dr Bryan Humphrey talks to us about his experiences 'voluntouring' internationally during retirement.

Until next time – happy reading.



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# Market update

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## Australian economy still focused on global politics

**Riccardo Briganti – Investment Specialist, BT Advice**

Politics played a significant role in fuelling investor concerns in 2016 with the key events being the Brexit vote and the election of Trump. Investors were left approaching 2017 with a sense of trepidation given the upcoming European elections peppering the calendar in the first half of the year. This unease appeared to be justified when the initial rounds of the French elections saw the major established parties eliminated from the presidential race and the UK Prime Minister Theresa May made the surprise announcement that the UK would hold a general election in June.

The focus has now shifted to the economic outlook and market fundamentals. The political landscape, while still uncertain, appears to be less destabilising than initially considered. The election of Macron in France and the likelihood Merkel will be re-elected has provided a measure of political certainty for the EU, while the potential economic impact of Brexit has been downgraded in the eyes of analysts.

Potential disruption in the US with Trump has been mitigated by the government measures in place. However, the government deciding not to back all Trump's promises has also obstructed the sought-after tax cuts, healthcare and infrastructure proposals.

Global economic data continues to be encouraging, if not as robust as earlier in the year. Strong manufacturing results have eased, but economic growth is continuing. This is a double-edged sword: central banks are likely to delay rate increases if growth expectations are wound back which could be seen as a positive for financial markets but any hint of faltering growth could also lead to disappointment if an overly optimistic view of growth has been factored into market prices.

In Australia, the Federal Budget dominated recent market news, particularly the bank levy introduced as means of budget repair and funding increased banking supervision. The published projections put the budget back into surplus by 2020-21 assuming all budget proposals are passed and economic forecasts are met. Recent history tells us this is unlikely given current composition of the Senate.

Real GDP growth expected to rebound to 2.75% in 2017-18 following a weather-impacted 1.75% increase in 2016-2017. The most contentious forecasts are for wages growth. The Budget Papers show expected wages growth of 2.5% in 2017-18, followed by 3% in subsequent years. This appears unlikely given wages growth has been stuck below 2.5% over the past two years with the latest data showing wages increased by 1.9% in the year to March 2017.

This has an impact on the household spending and the performance of retail companies. Retail sales fell by a seasonally adjusted 0.1% in March, following a 0.2% fall in February. However, over the past 12 months, retail sales have increased by 2.1% – the lowest growth rate in more than three years.

In this environment of subdued growth and restrained inflationary pressures, there is little reason for the Reserve Bank of Australia to increase interest rates. At the same time, with official rates at an historical low of 1.5%, there is little benefit from cutting further. As a result, official interest rates are like to remain on hold in the foreseeable future.

# Federal Budget 2017 – 6 things to consider

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The 2017 Federal Budget was about security and opportunity, with the Government focusing on guaranteeing essential services and ensuring the Government lives within its means.

Following extensive changes to superannuation in the 2016 Federal Budget, there was only a handful of new measures for superannuation this time around. It is important to remember that all of the measures outlined are still only proposals and will only become law once they are passed through Parliament.

Here are 6 announcements from the latest Budget which you may want to be aware of:

## **1) Incentive for older Australians to downsize their home**

From 1 July 2018, older homeowners, aged 65 years and over, will be able to make an after-tax contribution to their super of up to \$300,000 using the proceeds from the sale of their family home. The house must be their principal residence and must have been held for at least 10 years. This after-tax contribution will also be exempt from the normal super contribution rules that generally prevent older Australians being able to invest in superannuation.

## **2) First Home Super Saver Scheme**

From 1 July 2017, those looking to buy their first home will be able to make voluntary contributions into their superannuation of up to \$15,000 per financial year (\$30,000 in total) to save for their deposit. They will be able to withdraw these contributions plus their deemed earnings from 1 July 2018.

## **3) Small businesses claiming expenditure deductions on tax**

Small businesses with a turnover up to \$10 million will be able to claim a tax deduction for expenditure up to \$20,000 until 1 July 2018. The Government remains committed to cutting the company tax rate to 25% for all businesses regardless of size by 2026.

## **4) Medicare Levy cost increases**

The Medicare levy will be increased by 0.5% to 2.5% from 1 July 2019. This increase to the levy will assist in funding the National Disability Scheme in full, designed to support Australians with permanent and significant disability.

## **5) University degree may cost more**

Fees on university degrees will be increased by 7.5% to be phased in over four years at a rate of 1.8% each year starting from 2018. These fees can still be covered through the Higher Education Loan Program scheme. There will also be changes to the threshold when the loans need to start to be repaid. The income level at which repayments must start will be lowered from the current level of \$54,869 to \$42,000.

## **6) Changes to childcare**

Previous childcare benefits and rebates will be replaced with a single means-tested Child Care Subsidy from July 2018. There will no longer be an annual cap on rebates for families with an income of \$185,710 or less. Families with an income between \$185,710 and \$350,000 will have childcare subsidy rebates capped at \$10,000, with wealthier families unable to claim subsidies once combined income exceeds \$350,000.

Understanding how the proposed Budget announcements may impact your portfolio can be complicated. It is therefore important to speak to us to ensure your investment and retirement plans are in the best position possible if the changes were to take effect.





*"Homeowners aged 65 years and over will be able to make an after-tax contribution to their super of up to \$300,000 using the proceeds from the sale of their family home"*

# How to flip property for profit

While the Australian metropolitan property market may be running hot, there are still ways to buy real estate 'trash' and turn it into real estate 'cash', according to celebrity renovator queen Cherie Barber.

Most people believe you can make money on property, but it's usually through capital growth, which you often have to wait for the market to deliver.

## Quick transformation

"Buying property and giving it a quick cosmetic transformation to sell quickly (flipping) can manufacture your own property growth," The Living Room renovator, Ms Barber says.

"It's important to pick the right style of property, in the right location and know your limits to your renovation budget if you are considering flipping properties," she explains.

"Ideally, you'll be buying properties to maximise your money. Flipping, that is selling quickly after renovating, is not always the best way to do this. Buying, renovating and then renting for yield is often a good way to establish a property portfolio. The extra value you create by renovating your property can be used as equity to borrow more money from the bank and invest into your next property."

## The renovation queen's tips are below:

### Choose ugly

Looking at a range of Australian architecture there are a lot of ugly houses, so the opportunity for transformation is real. From the choice of Victorian, Old Colonial, Inter-war, Federation, Post-war, Late-20th Century and Contemporary, it's the Late-20th Century that offers the greatest opportunities. Houses from the 60s, 70s, and 80s which are typically red or blonde brick are the best targets for flipping as they don't often need structural renovation.

### Check your margins are good

Cosmetic profit margins can net \$20,000 to \$80,000 in 6-10 weeks. You need to know your numbers, your costs, your margins and some tips on what realtors (and buyers) look for when valuing a property. It's not a free road to wealth, you need to put in effort but if you are looking to flip properties, don't try to win design awards.

## Know the right formulas of renovation

After doing your property due diligence, you need to make sure your sums add up.

- Your cosmetic renovation budget is 10% of the property price you paid (not the price you expect to sell for).
- You need to sell for 135% of the purchase price to make it a success.

## Top 10 tips to jack up your property value

1. Add a bedroom
2. Update a kitchen
3. Update a bathroom
4. Add wardrobes
5. Remove walls
6. Install air-conditioning
7. Paint
8. Replace floor coverings
9. Replace window furnishings
10. Improve lighting

# ‘Voluntourism’: how to make a difference in your retirement

When Dr Bryan Humphrey retired, he didn’t stop working. He simply shifted gears, concocting a plan to embark on his long-held dream of an international ‘voluntouring’ adventure.

After a career lecturing at Deakin University on education, criminology, and medicine, Dr Humphrey was ready to ply his many skills in an environment where he would make an immediate difference.

“I had studied sociology and development in my first degree and had also been active with Community Aid Abroad (now Oxfam). And when I retired I was ready and wanting to use my skills to make a contribution overseas,” he says.

An application to Australian Volunteers International landed him the role he’d been looking for. From November 2013 to November 2015, Dr Humphrey lived in Phnom Penh, Cambodia, where according to UNICEF<sup>1</sup>, only 26% of children make it to secondary school and nearly 5 million people live on less than US\$1 a day. He was deployed as a learning and development mentor tackling poverty and issues surrounding the protection of women and children.

“I worked with four NGOs. We ran a series of workshops and train-the-trainer sessions with a focus on developing sustainable and transferable skills,” he says.

As the former Director of Workforce Capacity with the Queensland Public Service Commission, Dr Humphrey had plenty to offer.

That said, the project was not without challenges. “When you arrive, you have your kit bag of knowledge but no idea what might be applicable in the new context. And it takes quite a long time to establish trust, get to know the cultural context and build relationships.”

Also crucial to success, he says, was putting a lot of time and energy into learning the Khmer language. By the second year, meetings became easier, and the locals respected his effort to speak in their native tongue.

Since returning to Australia, Dr Humphrey continues to use the freedom enabled by retirement to make a difference, and has made another trip to Cambodia, spending several months evaluating the effectiveness of two NGO programs. He’s also banded together friends and colleagues to raise \$29,000 for the Cambodian Women’s Crisis Centre.

Dr Humphrey says that to make the most from your ‘voluntouring’ experience, you need an open mind, a willingness to learn and adjust and a generous attitude towards sharing your skills and knowledge.

How would one go about organising the funding for the process? Australian Volunteers International, funded by the Australian Government, provides help in the form of an allowance but you will also need to draw on some of your own funds.



“The government funding was enough for living in Phnom Penh,” he says. “But I also drew on the minimum superannuation allowance, so that I had enough for additional travel and could rent a decent apartment.

As for future humanitarian efforts, he is heavily involved in a joint fundraising drive between the Cambodian Organisation for Children and Development, and Rotary International, to bring clean water to remote communities.

1- UNICEF: Cambodia at a glance, accessed 16 August 2016.



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